

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

S

W-01537A
Shepard Water Company
~~Star Route 4, Box 40~~ 10430 N. Martinez Lake Rd.
Yuma, AZ 85365

RECEIVED

MAY 31 2006

AZ CORP COMM
Director Utilities

ANNUAL REPORT

FOR YEAR ENDING

12	31	2005
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FOR COMMISSION USE

ANN04	05
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entered
S-31-06
pf

COMPANY INFORMATION

Company Name (Business Name) <u>Shepard Water Company</u>		
Mailing Address <u>10430 N. Martinez Lake Rd.</u>		
<u>Yuma</u>	<u>AZ</u>	<u>85365</u>
(City)	(State)	(Zip)
<u>928-783-9589</u>	<u>928-782-3360</u>	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)
Email Address <u>info@martinezlake.com</u>		
Local Office Mailing Address <u>Same as above</u>		
(Street)		
(City)	(State)	(Zip)
<u>Local Office Telephone No. (Include Area Code)</u>	<u>Fax No. (Include Area Code)</u>	<u>Pager/Cell No. (Include Area Code)</u>
Email Address _____		

MANAGEMENT INFORMATION

Management Contact: <u>John Guth</u>		<u>President</u>	
(Name)		(Title)	
<u>10430 N. Martinez Lake Rd., Yuma</u>	<u>AZ</u>	<u>85365</u>	
(Street)	(City)	(State)	(Zip)
<u>928-783-9589</u>	<u>928-782-3360</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)	
Email Address <u>info@martinezlake.com</u>			
On Site Manager: <u>Lili Whitford</u>			
(Name)			
<u>10430 N. Martinez Lake Rd., Yuma</u>	<u>AZ</u>	<u>85365</u>	
(Street)	(City)	(State)	(Zip)
<u>928-783-9589</u>	<u>928-782-3360</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)	
Email Address <u>info@martinezlake.com</u>			

☒ Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: Wade Noble

(Name)

1405 W. 16th St.

(Street)

Yuma

(City)

AZ

(State)

85364

(Zip)

928-343-9947

Telephone No. (Include Area Code)

928-343-9483

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Attorney: Wade Noble

(Name)

Same as above

(Street)

(City)

(State)

(Zip)

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

☐ Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

☐ Sole Proprietor (S)

☒ C Corporation (C) (Other than Association/Co-op)

☐ Partnership (P)

☐ Subchapter S Corporation (Z)

☐ Bankruptcy (B)

☐ Association/Co-op (A)

☐ Receivership (R)

☐ Limited Liability Company

☐ Other (Describe) _____

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

☐ APACHE

☐ COCHISE

☐ COCONINO

☐ GILA

☐ GRAHAM

☐ GREENLEE

☐ LA PAZ

☐ MARICOPA

☐ MOHAVE

☐ NAVAJO

☐ PIMA

☐ PINAL

☐ SANTA CRUZ

☐ YAVAPAI

☒ YUMA

☐ STATEWIDE

COMPANY NAME

Shepard Water Company

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization	708		708
302	Franchises	2,708		2,708
303	Land and Land Rights	250		250
304	Structures and Improvements	2,257	1,501	756
307	Wells and Springs	4,424	4,424	-0-
311	Pumping Equipment	12,581	8,240	4,341
320	Water Treatment Equipment	2,630	2,630	-0-
330	Distribution Reservoirs and Standpipes	8,141	8,022	119
331	Transmission and Distribution Mains	5,796	5,796	-0-
333	Services	7,205	7,205	-0-
334	Meters and Meter Installations			
335	Hydrants			
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	879	75	804
340	Office Furniture and Equipment	509	246	263
341	Transportation Equipment			
343	Tools, Shop and Garage Equipment	442	442	-0-
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	48,530	38,581	9,949

This amount goes on the Balance Sheet Acct. No. 108

COMPANY NAME Shepard Water Company

CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1x2)
301	Organization	708		
302	Franchises	2,708		
303	Land and Land Rights	250		
304	Structures and Improvements	2,257		
307	Wells and Springs	4,424		
311	Pumping Equipment	12,581	5.49	691
320	Water Treatment Equipment	2,630		
330	Distribution Reservoirs and Standpipes	8,141		
331	Transmission and Distribution Mains	5,796		
333	Services	7,205		
334	Meters and Meter Installations			
335	Hydrants			
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	879	2.00	18
340	Office Furniture and Equipment	509	10.00	51
341	Transportation Equipment			
343	Tools, Shop and Garage Equipment	442		
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	48,530		760

This amount goes on the Comparative Statement of Income and Expense _____
Acct. No. 403.

BALANCE SHEET

Acct No.		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	ASSETS		
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 11,416	\$ 6,466
134	Working Funds	295,575	295,575
135	Temporary Cash Investments		
141	Customer Accounts Receivable	3,949	3,349
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	767	3,951
174	Miscellaneous Current and Accrued Assets	32,411	37,737
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 344,118	\$ 347,078
	FIXED ASSETS		
101	Utility Plant in Service	\$ 45,461	\$ 48,530
103	Property Held for Future Use		
105	Construction Work in Progress		
108	Accumulated Depreciation – Utility Plant	(37,822)	(38,581)
121	Non-Utility Property		
122	Accumulated Depreciation – Non Utility		
	TOTAL FIXED ASSETS	\$ 7,639	\$ 9,949
	TOTAL ASSETS	\$ 351,757	\$ 357,027

NOTE: The Assets on this page should be equal to **Total Liabilities and Capital** on the following page.

BALANCE SHEET (CONTINUED)

Acct. No.		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	LIABILITIES		
	CURRENT LIABILITES		
231	Accounts Payable	\$	\$
232	Notes Payable (Current Portion)	26,628	26,628
234	Notes/Accounts Payable to Associated Companies	20,000	50,000
235	Customer Deposits		
236	Accrued Taxes	2,851	6,330
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities	1,666	2,521
	TOTAL CURRENT LIABILITIES	\$ 51,145	\$ 85,479
	LONG-TERM DEBT (Over 12 Months)	208,705	182,077
224	Long-Term Notes and Bonds	\$	\$
	DEFERRED CREDITS		
251	Unamortized Premium on Debt	\$	\$
252	Advances in Aid of Construction		
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction		
272	Less: Amortization of Contributions		
281	Accumulated Deferred Income Tax	223	615
	TOTAL DEFERRED CREDITS	\$ 223	\$ 615
	TOTAL LIABILITIES	\$ 260,073	\$ 268,171
	CAPITAL ACCOUNTS		
201	Common Stock Issued	\$ 1,000	\$ 1,000
211	Paid in Capital in Excess of Par Value	6,096	6,096
215	Retained Earnings	84,588	81,760
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$ 91,684	\$ 88,856
	TOTAL LIABILITIES AND CAPITAL	\$ 351,757	\$ 357,027

* See Utilities Division Annual Report
Statement of Retained Earnings

Shepard Water Company
Utilities Division Annual Report
Statement of Retained Earnings
For the Year Ended December 31, 2005

Retained earnings, beginning of year as previously reported, December 31, 2004			\$ 84,588
Less: Correction for Arizona state income taxes for the years ended:			
September 30, 2001	\$ 5,102		
September 30, 2002	<u>1,228</u>	<u>6,330</u>	
Retained earnings, beginning of year as restated, December 31, 2004			78,258
Net income for the year ended December 31, 2005		<u>3,502</u>	
Retained earnings, ending			<u>\$ 81,760</u>

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$	\$
460	Unmetered Water Revenue	50,728	51,211
474	Other Water Revenues		
	TOTAL REVENUES	\$ 50,728	\$ 51,211
	OPERATING EXPENSES		
601	Salaries and Wages	\$	\$
610	Purchased Water		
615	Purchased Power	893	1,301
618	Chemicals		
620	Repairs and Maintenance	201	20
621	Office Supplies and Expense	1,499	1,299
630	Outside Services	10,930	10,920
635	Water Testing	1,030	15,027
641	Rents		
650	Transportation Expenses		
657	Insurance – General Liability	3,807	3,881
659	Insurance - Health and Life		
666	Regulatory Commission Expense – Rate Case		
675	Miscellaneous Expense	5,666	8,904
403	Depreciation Expense	133	760
408	Taxes Other Than Income	240	90
408.11	Property Taxes	2,514	2,891
409	Income Tax	3,549	2,096
	TOTAL OPERATING EXPENSES	\$ 30,462	\$ 47,189
	OPERATING INCOME/(LOSS)	\$ 20,266	\$ 4,022
	OTHER INCOME/(EXPENSE)		
419	Interest and Dividend Income	\$	\$
421	Non-Utility Income	340	1,162
426	Miscellaneous Non-Utility Expenses	(453)	(243)
427	Interest Expense	(144)	(1,439)
	TOTAL OTHER INCOME/(EXPENSE)	\$ (257)	\$ (520)
	NET INCOME/(LOSS)	\$ 20,009	\$ 3,502

COMPANY NAME	Shepard Water Company
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SUPPLEMENTAL FINANCIAL DATA

Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued	1/25/02			
Source of Loan	State of AZ WIFA			
ACC Decision No.	62091			
Reason for Loan	Water treatment facility			
Dollar Amount Issued	\$ 299,475	\$	\$	\$
Amount Outstanding	\$ 208,705	\$	\$	\$
Date of Maturity	1/1/22			
Interest Rate	None %	%	%	%
Current Year Interest	\$ -0-	\$	\$	\$
Current Year Principle	\$ 26,628	\$	\$	\$

Meter Deposit Balance at Test Year End	\$ -0-
--	--------

Meter Deposits Refunded During the Test Year	\$ -0-
--	--------

COMPANY NAME Shepard Water Company

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-616951	5HP	80		8	2	
55-619952	5HP	80		8	2	

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
None		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
None			

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
5,000	1	3,000	1

COMPANY NAME Shepard Water Company

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		
3		
4		
5		
6		
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	
3/4	
1	
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Tubo 4	
Comp. 6	
Tubo 6	

For the following three items, list the utility owned assets in each category.

TREATMENT EQUIPMENT:

STRUCTURES:

OTHER:

COMPANY NAME: Shepard Water Company

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2005

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD	GALLON PUMPED (Thousands)
JANUARY	222	84,070	84,070
FEBRUARY	222	69,480	69,480
MARCH	222	62,340	62,340
APRIL	222	99,040	99,040
MAY	222	83,000	83,000
JUNE	222	122,130	122,130
JULY	222	125,520	125,520
AUGUST	222	135,150	135,150
SEPTEMBER	222	124,100	124,100
OCTOBER	222	104,020	104,020
NOVEMBER	222	102,710	102,710
DECEMBER	222	79,620	79,620
TOTAL		1,191,180	1,191,180

Is the Water Utility located in an ADWR Active Management Area (AMA)?

☒ Yes ☐ No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

☐ Yes ☒ No

If yes, provide the GPCPD amount: _____

What is the level of arsenic for each well on your system. 12 mg/l

(If more than one well, please list each separately.)

Note: If you are filing for more than one system, please provide separate data sheets for each system.

COMPANY NAME Shepard Water Company YEAR ENDING 12/31/2005

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2005 was: \$ 2,890.68

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain why. _____

YOUR CHECK IS YOUR RECEIPT

[illegible]

ASE SEND ALL PAYMENTS TO: Karen Fritz, Yuma County Treasurer, 410 Maiden Lane Ste. C, Yuma, AZ 85364

Primary Account: 0078294736

Page 2 of 2

Enclosures 0

Oct 01, 2005 to Oct 31, 2005



31

SHEPARD WATER COMPANY

Daily Balance Summary

Date	Balance	Date	Balance	Date	Balance
Sep 30	5,232.32	Oct 13	4,783.59	Oct 25	7,032.10
Oct 03	6,775.57	Oct 17	4,616.84	Oct 26	6,822.10
Oct 05	4,112.77	Oct 19	3,916.84	Oct 27	3,931.42
Oct 10	4,857.59	Oct 24	7,382.35	Oct 31	5,078.89

Image Items

#1518 10/13 \$74.00 	#1519 10/17 \$25.00 	#1520 10/17 \$141.75
#1521 10/27 \$2,890.68 	#1522 10/19 \$700.00 	#1523 10/26 \$210.00
#1524 10/25 \$117.03 	#1525 10/25 \$233.22 	

SHEPARD WATER COMPANY
 STAR ROUTE 4 BOX 41
 YUMA, AZ 85365
 PH 928-788-9389

EXPLANATION	AMOUNT
#10000021	

PAY
 AMOUNT
 OF

TO THE ORDER OF

Twenty-eight Hundred and no/100
 10/10/05 Kana Fritz, Yuma County Treasurer

Full year property

DOLLARS
 1531

CHECK
 AMOUNT

\$ 2890.65

OGDENSBANK
 YUMA, ARIZONA

Sheila H. Ford

⑆001521⑆ ⑆122105744⑆ 0078294735⑆

1521
 91-574/1221
 880

NO
 YOUR

OTAL

**VERIFICATION
AND
SWORN STATEMENT
Taxes**

RECEIVED

MAY 31 2006

AZ CORP COMM
Director Utilities

VERIFICATION

STATE OF Arizona

**I, THE UNDERSIGNED
OF THE**

COUNTY OF (COUNTY NAME) <u>Yuma</u>
NAME (OWNER OR OFFICIAL) TITLE <u>John Guth, President</u>
COMPANY NAME <u>Shepard Water Company</u>

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

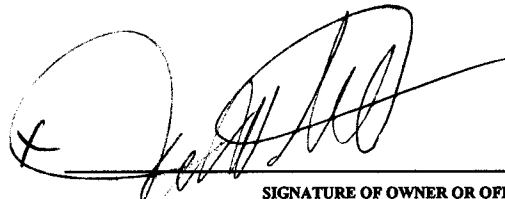
MONTH	DAY	YEAR
12	31	2005

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.



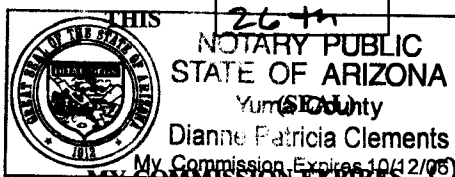
SIGNATURE OF OWNER OR OFFICIAL

928-783-9589

TELEPHONE NUMBER

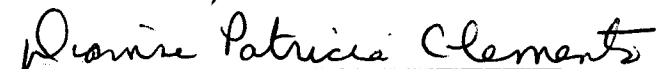
SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF



DAY OF May
2006

COUNTY NAME	<u>Yuma</u>
MONTH	<u>May</u> <u>2006</u>



SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES October 12, 2006

COMPANY NAME Shepard Water Company **YEAR ENDING 12/31/2005**

INCOME TAXES

* Per Form 1120, Fiscal year ended September 30, 2005

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>7,597</u>
Estimated or Actual Federal Tax Liability	<u>1,140</u>

State Taxable Income Reported	<u>8,161</u>
Estimated or Actual State Tax Liability	<u>564</u>

Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u> </u>
Amount of Gross-Up Tax Collected	<u> </u>
Total Grossed-Up Contributions/Advances	<u> </u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.

4. 
SIGNATURE

5/28/06
DATE

John W. Guth

PRINTED NAME

President

TITLE

RECEIVED

MAY 31 2006

VERIFICATION AND SWORN STATEMENT Intrastate Revenues Only

AZ CORP COMM
Director Utilities

VERIFICATION

STATE OF Arizona

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)	<u>Yuma</u>
NAME (OWNER OR OFFICIAL) TITLE	<u>John Guth, President</u>
COMPANY NAME	<u>Shepard Water Company</u>

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2005

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2005 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 54,866

**(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 3,655
IN SALES TAXES BILLED, OR COLLECTED)**

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

[Signature]
SIGNATURE OF OWNER OR OFFICIAL
928-783-9589
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

26th

DAY OF

COUNTY NAME	<u>Yuma</u>
MONTH	<u>May</u>
	<u>2006</u>



NOTARY PUBLIC
STATE OF ARIZONA

Yuma County

Dianne Patricia Clements

My Commission Expires 10/12/06

[Signature]
SIGNATURE OF NOTARY PUBLIC

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY**

RECEIVED

MAY 31 2006

AZ CORP COMM
Director Utilities

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) Yuma	
NAME (OWNER OR OFFICIAL) John Guth	TITLE President
COMPANY NAME Shepard Water Company	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2005

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2005 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES
\$ 49,017

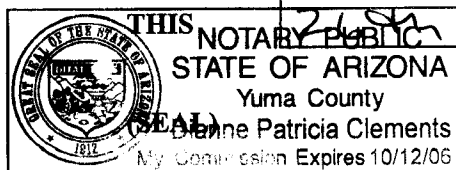
(THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 3,267
IN SALES TAXES BILLED, OR COLLECTED)

*RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.


SIGNATURE OF OWNER OR OFFICIAL
928-783-9589
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF



DAY OF

NOTARY PUBLIC NAME Dianne Patricia Clements	
COUNTY NAME Yuma	
MONTH May	.20 06

MY COMMISSION EXPIRES October 12, 2006

X 
SIGNATURE OF NOTARY PUBLIC

WILLIAM M. CLEMENTS

CERTIFIED PUBLIC ACCOUNTANT

1421 S. Fifth Avenue
Yuma, Arizona 85364
(928) 782-7503
FAX (928) 782-6845
wmccpa@c2i2.com

To the Board of Directors
Shepard Water Company
Yuma, AZ


May 26, 2006

I have compiled the special-purpose balance sheet of Shepard Water Company as of December 31, 2004 and 2005, and the related special-purpose statement of income for the years then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying special-purpose financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The accompanying special-purpose financial statements were prepared for the purpose of complying with the Arizona Corporation Commission Utilities Division, and are not intended to be a presentation in conformity with generally accepted accounting principles.

I am not independent with respect to Shepard Water Company.



William M. Clements
Certified Public Accountant

RECEIVED

MAY 31 2006

AZ CORP COMM
Director Utilities

WILLIAM M. CLEMENTS

CERTIFIED PUBLIC ACCOUNTANT

1421 S. Fifth Avenue
Yuma, Arizona 85364
(928) 782-7503
FAX (928) 782-6845
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To the Shareholders of
Shepard Water Company, Inc.
Martinez Lake, Arizona

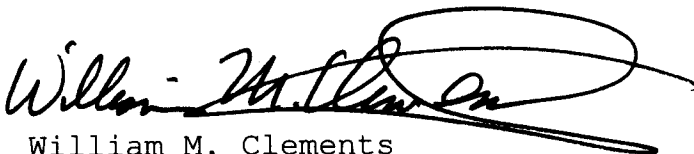
May 13, 2006

I have compiled the accompanying balance sheet of Shepard Water Company, Inc., as of September 30, 2005, and the related statement of income and retained earnings for the year ended September 30, 2005, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I did become aware of a departure from generally accepted accounting principles that is described in the following paragraph.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position and results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

I am not independent with respect to Shepard Water Company, Inc.

A handwritten signature in black ink, appearing to read "William M. Clements", with a large, loopy flourish extending from the end of the signature.

William M. Clements
Certified Public Accountant

SHEPARD WATER COMPANY, INC.
BALANCE SHEET
SEPTEMBER 30, 2005

A S S E T S

Current Assets:

Cash	\$ 3,193
Undisbursed loan proceeds, restricted	295,575
Accounts Receivable	3,418
Prepaid income taxes	<u>2,897</u>

Total Current Assets	<u>305,083</u>
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Property and Equipment:

Office equipment	509
Utility plant	<u>44,355</u>
	44,864
Less: Accumulated depreciation	<u>(38,360)</u>
	6,504
Land	<u>250</u>
	<u>6,754</u>

Other Assets:

Franchise fee	2,708
Organization cost	708
Utility deposit	250
Utility plant acquisition adjustment	14,541
Debt service reserve, WIFA	16,864
Water rights, pending	<u>5,000</u>
	<u>40,071</u>

Total Assets	<u><u>\$ 351,908</u></u>
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L I A B I L I T I E S A N D S H A R E H O L D E R S '
E Q U I T Y

Current Liabilities:

Current portion of long-term debt	\$ 26,628
Advance customer payments	883
Sales taxes payable	233
Income taxes payable	6,330
Interest payable	<u>1,225</u>

Total Current Liabilities	<u>35,299</u>
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Long-term Debt:

Note payable, net of current portion	188,734
Loan payable, stockholders'	40,000
Deferred tax liability	<u>615</u>

Total Long-Term Liabilities	<u>229,349</u>
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Total Liabilities	<u>264,648</u>
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Shareholders' Equity:

Common stock	1,000
Other paid-in capital	6,096
Retained Earnings	<u>80,164</u>
	<u>87,260</u>

Total Liabilities and Shareholders' Equity	<u>\$ 351,908</u>
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See Accountant's Compilation Report

SHEPARD WATER COMPANY, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>Amount</u>	<u>Percent of Revenue</u>
Revenues:		
Water revenues	\$ 50,538	99.4
Other	291	.6
	<u>50,829</u>	<u>100.0</u>
Cost of Revenue:		
Contract labor	8,400	16.5
Supplies	28	.1
Water testing	7,326	14.4
Depreciation	521	1.0
	<u>16,275</u>	<u>32.0</u>
Cost of Revenue		
	<u>16,275</u>	<u>32.0</u>
Gross Profit	<u>34,554</u>	<u>68.0</u>
Operating Expenses:		
Accounting	8,457	16.6
Bank charges	193	.4
Bookkeeping	2,520	5.0
Depreciation	51	.1
Dues and subscriptions	100	.2
Insurance	3,881	7.6
Interest	1,439	2.8
Licenses and permits	90	.2
Management fee	2,000	3.9
Office supplies	185	.4
Penalties	243	.5
Postage and delivery	746	1.5
Property taxes	2,514	5.0
Travel	320	.6
Utilities	1,035	2.0
Cash shortages	238	.5
	<u>24,012</u>	<u>47.3</u>

Continued

SHEPARD WATER COMPANY, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
Continued

	<u>Amount</u>	<u>Percent of Revenue</u>
Income Before Income Taxes	<u>10,542</u>	<u>20.7</u>
Deferred income tax	392	.8
Current income taxes:		
Federal	1,140	2.2
State	<u>564</u>	<u>1.1</u>
	<u>2,096</u>	<u>4.1</u>
Net Income	<u>8,446</u>	<u>16.6</u>
Retained Earnings, beginning of year as previously reported	78,048	
Less corrections for Arizona state income taxes for the years ended:		
September 30, 2001	(5,102)	
September 30, 2002	<u>(1,228)</u>	
As restated	<u>71,718</u>	
Retained Earnings, end of year	<u>\$ 80,164</u>	

See Accountant's Compilation Report